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SUBJECT: INVESTMENT IN VIETNAM UNDETERRED BY GLOBAL SLOWDOWN

REF: A) Hanoi 193 ("Vietnam's 2007 Economy");
B) Hanoi 372 (Investors Flocking To Northern Vietnam);
C) Hanoi 297 ("Vietnam Economic Highlights");
D) Hanoi 1275 ("BTA Role in Economic Transformation");
E) 07 Hanoi 1918 ("Gains In Provincial Competitiveness");
F) Hanoi 123 ("High Priced IPOs Hurting Equitisation");
G) Hanoi 377 ("PM Declares War On Inflation");
H) Hanoi 56 and HCMC 320 (Skilled Labor Shortages);
I) Hanoi 55 ("Administrative Reform")

HANOI 00000457 001.2 OF 004

11. (U) Summary: Foreign investment continues to pour into Vietnam in record numbers. In just the first three months of 2008, the Government of Vietnam (GVN) has approved 148 new foreign investment projects valued at \$5.1 billion, a 43 percent year-on-year increase. Foreign investors made commitments equal to \$21.3 billion in 2007, an increase of 78 percent from \$12 billion in 2006. The GVN reports that growth in actual FDI flows in 2007 was even higher, from \$4.1 billion in 2006 to \$8 billion, reflecting a 95 percent increase. The GVN estimates that portfolio investments also increased, from \$1.2 billion in 2006 to \$6.2 billion in 2007. The United States was Vietnam's eight largest investor in 2007 and largest non-Asian investor (not counting investment from the British Virgin Islands) with \$358 million in approved investments, and \$162 million in actual investment. U.S. investors have big projects in store for 2008, and in the first quarter the United States led as Vietnam's top investor. The popularity of Vietnam as investment destination and growing competition for FDI among the provinces appears to be leading to efforts to improve economic governance at the central and regional levels. End Summary.

FDI COMMITMENTS REACHED RECORD LEVELS IN 2007

12. (U) Marking the twentieth year since Vietnam first opened its doors to foreign investment, 2007 closed with record foreign direct investment (FDI) numbers. The GVN approved \$21.3 billion for new and existing FDI projects in 2007, a 78 percent increase from the \$12 billion in 2006. Of these, 1,544 were new projects totaling \$18.71 billion (more than double 2006's \$7.6 billion), while expansions to existing projects were worth \$2.6 billion. Actual FDI flows in 2007 were \$8 billion, according to GVN figures, up 95 percent from the \$4.1 disbursed in 2006. "The year 2007 could be considered as a landmark in foreign investment, both in terms of quantity and quality", Phan Huu Thang, Chief of the Foreign Investment Agency of the Ministry of Planning and Investment (MPI), told the Vietnam Economic Times newspaper. (Note: The FIA has revised the earlier investment figures given by the GVN's General Statistics Office, and cited in REF A.)

¶3. (U) The pace of FDI in 2008 remains brisk. In just the first three months of 2008, the GVN has approved 148 new FDI projects with a total capital of \$5.1 billion, a 43 percent increase over the same period in 2007. Foreign investors have announced multi-billion dollar projects in southern, central and northern Vietnam this year.

¶4. (U) While investor interest remains very strong, the gap between approved and actual investment is wide. Since Vietnam opened to FDI in 1988, approved FDI has been \$85 billion and actual expenditures \$19.2 billion, a 34 percent ratio. A number of factors contribute to this gap, such as delays in processing building permits, business licenses and other required business documents as well as a lack of financial strength among some would-be investors. While some projects naturally have long disbursement periods, especially the new megaprojects that have been announced over the last year, others may never be implemented.

THE UNITED STATES MAKES ITS MARK

¶5. (SBU) The United States is rapidly becoming one of Vietnam's most important investors, particularly in the high-tech and high-value sectors (REF B). According to the Foreign Investment Agency (FIA) the U.S. was Vietnam's eight largest investor in 2007, with \$358 million in approved investments, and \$162 million in actual investment. New U.S. investment projects planned for 2008 include V-CAPS's \$300 million joint venture chip testing facility and Emerson Electric's electric power supply plants.

¶6. (U) A massive \$1.3 billion tourism project planned for southern Vietnam has brought the United States to the top of the investors' list in the first quarter of 2008. The recently announced "Vung Tau Wonderful Theme Park" project, a 155-hectare tourism project with

HANOI 00000457 002.2 OF 004

U.S. capital, is being billed as Vietnam's largest tourism and entertainment project. That figure will be surpassed, however, pending the Prime Minister's approval of another mammoth project with U.S. investors --the projected \$10 billion Dragon Beach Casino Resort in central Vietnam-- which has already received the backing of the local provincial authorities (REF C). In April 2008, the California-based Oak Tree Realty Group announced that it was planning a \$5 billion resort in Danang, according to local press reports.

¶7. (U) The amount of U.S. investment in Vietnam is likely to be much higher than that reflected in the official GVN records. Investment by many U.S. firms like Intel (Hong Kong), Coca-Cola (Singapore), Procter & Gamble (Singapore), Unocal (Netherlands) and ConocoPhillips (Netherlands) appears credited to the countries where their subsidiaries are located. A 2007 USAID-sponsored study calculated that actual committed U.S. investment dollars could be almost double the number that is currently credited to the United States (REF D).

OTHER TOP INVESTORS

¶8. (U) South Korea remains Vietnam's largest investor, accounting for a quarter (25.9 percent) of all new investment commitments in 2007. Last year, the GVN approved 424 new Korean projects worth \$4.8 billion. Surprisingly, the British Virgin Islands (BVI) appears as Vietnam's second largest investor in 2007, with \$4.3 billion in approved FDI (including a \$1.7 billion oil refinery project and real and other commercial estate developments). Singapore, with approved investment capital of \$2.5 billion in 2007, was Vietnam's third largest investor, followed by Taiwan with \$1.7 billion, Malaysia with \$1.09 billion, Japan with \$952 million, China with \$553 million, the United States with \$358 million, and Hong Kong with \$353 million.

THE CHANGING FACE OF FDI IN VIETNAM

¶9. (U) Although the industrial sector, and in particular manufacturing, continued to dominate investment flows in 2007, with over half of all approved FDI (\$9.4 billion), other sectors have been increasingly successful at tapping foreign capital and may well take over industry in the near future. The service sector, for instance, has been eating into industry's share of total FDI, with 45 percent in 2007, compared to 30 percent in 2006, according to GVN figures. During the same period, industry's share fell from 69 to 55 percent. The rapid growth of the service sector (\$8.9 billion in approved investment in 2007, up from \$2.3 billion in 2006) is widely believed to be the result of growing market access under Vietnam's WTO commitments. There is great potential for growth in service areas which are still heavily regulated by the GVN, such as telecommunications, financial services and media.

¶10. (U) Other noticeable trends are the emergence of hi-tech and real estate as important investment areas. Real estate projects, for instance, accounted for approximately \$5 billion in approved FDI in 2007, according to the Vietnam Economic Times, a trend that seems to be in full swing in 2008 with the likes of the Dragon Beach Casino Resort, Vung Tau Wonderful Theme Park, the Keang Nam Hanoi Landmark Tower (\$ 500 million), the Hanoi Golden Westlake (\$80 million), and the newest announcement, made on April 16, of the \$9 billion Pearl of Asia resort in southern Vietnam being put together by a Swiss financial firm. Another ongoing trend is declining foreign investment in agriculture and forestry, whose share of FDI declined even further from 1.6 of all new FDI to 0.6 percent in 2007.

¶11. (U) Another trend has been the increasing scope of the projects being submitted for government approval. New projects in 2007 were on average worth \$14 million, compared to an average value of \$9.5 million in 2006. In addition to the large real estate projects under consideration, in April 2008 Japan's Idemitsu Kosan Company and Kuwait Petroleum International announced that they were taking a 70 percent stake in the \$6 billion Nghi Son petrochemical complex in Thanh Hoa province, 200 kilometers south of Hanoi.

THE PROVINCES LINE UP FOR INVESTORS

¶12. (U) Another significant, and positive, trend is the increasing competition among provinces to lure in foreign investors. Provincial authorities are becoming more aggressive in setting their own investment terms and improving their business climates.

HANOI 00000457 003.2 OF 004

Although Vietnam is heavily centralized, many provinces are making use of their licensing and land management authorities to attract foreign investors.

¶13. (U) The 2007 USAID-sponsored Provincial Competitiveness Index (PCI) showed clear year-on-year progress across the board (REF E). The aggregate PCI 2007 score for the median province increased by 3.2 points from the 2006 PCI. Provinces in Vietnam's traditionally relegated central region, like Thua Thien-Hue and Danang, are becoming more successful at attracting FDI and rank highly in the 2007 PCI. Despite this, the clusters surrounding the urban areas of Hanoi and HCMC, with better infrastructure and proximity to seaports and airports, still accounted for most of the FDI flowing into Vietnam. The construction and real estate market boom in Vietnam is also a factor that favors the big cities.

¶14. (U) Hanoi, despite scoring low on the PCI, went up from sixth place to become Vietnam's top investment destination in 2007 with 234 approved foreign investment projects worth \$2.5 billion, according to the FIA. Ho Chi Minh City was second (\$2.15 billion) but it had the largest number of new projects with 312. Ba Ria-Vung Tau in the south, which was the most successful FDI destination in 2006, fell to sixth place overall, while northern Ha Tay went from third to the twelfth, according to FIA.

¶15. (U) Despite this, the HCMC industrial cluster continued to account for the largest share of newly approved investment projects in 2007, and 2008 investment in HCMC and Ba Ria-Vung Tau (\$3.21 billion) dwarfed that of all the other provinces combined. Hanoi

aside, southern provinces rounded out the top five FDI destinations in 2007: Binh Duong in third place with \$1.8 billion and 292 projects, followed by Phu Yen with \$1.7 billion and 5 projects, and Dong Nai with \$1.4 billion and 116 projects. Some of the largest investment projects included the Vung Ro Refinery in Phu Yen with \$1.7 billion of investment (a U.K. - Russian investment credited to the BVI) and the Essar-Vina Steel Plant in Ba Ria-Vung Tau with \$527.3 million of authorized investment (credited to India).

PORTFOLIO INVESTMENTS

¶16. (U) The Governor of the State Bank of Vietnam, Nguyen Van Giau, estimates that foreign portfolio investments (FPI) in Vietnam in 2007 amounted to \$6.2 billion, four times the numbers for 2006. By the end of 2007, foreign investors owned over 7,500 stock accounts, triple the number from the previous year. In the first quarter of 2008, the number was up to 10,251, according to the Vietnam Securities Depository Center. Foreign investors owned 25-30 percent of shares of listed companies and accounted for 18 percent of the total transaction value.

¶17. (U) FPI capital in Vietnam has picked up considerably since the issuance of GVN bonds worth \$750 million in 2006 in the international market. In addition, the GVN's partial privatization ("equitization") plans could bolster growth in this area, especially if the GVN overcomes the obstacles that have bedeviled 2007's equitization and IPO efforts (REF F).

VIETNAM BECOMES AN OVERSEAS INVESTOR

¶18. (U) In 2007, Vietnamese enterprises invested in 64 projects abroad with approved investment capital of \$391.2 million, an increase of 92 percent from the previous year. Vietnam's foreign investment in 2007 was mostly in agricultural (\$157 million) and industrial (\$147 million) projects, according to MPI figures.

¶19. (U) To date, Vietnamese have \$1.39 billion in overseas investment commitments in 249 FDI projects in 35 countries. Many of these projects were in neighboring countries -including a \$82 million rubber plantation project in Laos and \$27 million in Cambodia's telecom networks- but its investments elsewhere are also growing. Approved Vietnamese investment in the United States went up by a staggering 487 percent in 2007, to a total of 30 investment projects worth \$68 million, according to GVN figures.

COMMENT: OPPORTUNITIES AND CHALLENGES

¶20. (U) Continued strong interest among foreign investors in Vietnam remains a bright spot for the GVN amidst a worrisome picture of high inflation, rising deficit, and slowing domestic and global growth (REF G). The World Bank estimates that FDI flows will grow in Vietnam by about 10 percent in 2008, a more modest rate of growth

HANOI 00000457 004.2 OF 004

than that experienced last year but one that the GVN will be all too happy to claim. An Economist Intelligence Unit analysis released last January concluded that foreign investment, more than exports, is driving economic growth and keeping the current account deficit in check. The assessment concluded that in 2008 Vietnam needs to "either increase savings or improve the efficiency of investment."

¶21. (U) The GVN is mindful of these challenges. In an interview in March, Planning and Investment Minister Vo Hong Phuc Phuc said that in 2008 the GVN would "cooperate with provinces and cities to [improve follow up on] projects, especially bigger ones, continue administrative reforms, work toward [fostering] transparency of investment-related formalities and help investors solve their problems to quickly implement their projects." He also cited infrastructure and skilled labor constraints as leading challenges for Vietnam in upcoming years (REF H).

¶22. (SBU) Mission Vietnam is considering how to best maximize available resources to assist Vietnam in remaining a competitive

investment destination for U.S. businesses, including the STAR Program's leading role in the Prime Minister's administrative reform project (Project 30, REF I), promoting improvements in the investment climate, and through comprehensive education reform. Fortunately, the GVN leadership recognizes these challenges and, with our assistance, appears ready to roll up its sleeves to tackle them.

123. (U) This cable was coordinated with Congen HCMC.

MICHALAK